

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
Public Notice: Wireline Competition)	DA 13-1846
Bureau Announces Availability of Version)	
3.2 of the Connect America Fund Phase II)	
Cost Model, and Illustrative Results; Seeks)	
Comment on Several Modifications for)	
Non-Contiguous Areas)	

Reply Comments of Alaska Communications Systems

Alaska Communications Systems (“ACS”)¹ hereby submits these reply comments in response to the record compiled regarding the August 29, 2013 Public Notice (“Public Notice”)² issued by the Wireline Competition Bureau (“Bureau”) in the above-captioned proceeding, seeking comment on version 3.2 of the Connect America Cost Model (“CAM”).

In light of the significant support in the record for the inclusion in the CAM of the adjustments proposed by ACS in its recent filings,³ ACS hereby requests that the Bureau direct CostQuest to incorporate those adjustments into the model, and to revise the estimate and allocation of undersea cable costs to (1) accurately reflect the cost of all of the required Alaska

¹ In these comments, “Alaska Communications Systems” signifies the incumbent local exchange carrier (“ILEC”) subsidiaries of Alaska Communications Systems Group, Inc., which include ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, and ACS of the Northland, LLC.

² *Connect America Fund*, WC Docket No. 10-90, “Public Notice: Wireline Competition Bureau Announces Availability of Version 3.2 of the Connect America Fund Phase II Cost Model, and Illustrative Results; Seeks Comment on Several Modifications for Non-Contiguous Areas,” DA 13-1846 (Wir. Comp. Bur., rel. Aug. 29, 2013).

³ *Connect America Fund*, WC Docket No. 10-90, *Ex parte* Letter from Richard R. Cameron, ACS, filed Aug. 24, 2013 (“ACS August 24 Letter”); *Ex parte* Letter from Leonard A. Steinberg and Richard R. Cameron, ACS, filed July 30, 2013 (“ACS July 30 Letter”); *Connect America Fund*, WC Docket No. 10-90, *Ex parte* Letter from Leonard A. Steinberg and Richard R. Cameron, ACS, filed July 9, 2013 (“ACS July 9 Letter”).

landing stations; (2) include the cost of the required Juneau spurs in the undersea cable footage requirement; and (3) allocate a greater portion of the cost of the cable to ACS voice and broadband services, as proposed in ACS's initial comments.

A. CAM Undersea Cable Methodology

The changes to the CAM's undersea cable methodology suggested by Professor Gable and Mr. Burns are not appropriate for Alaska and should not be adopted by the Bureau.⁴ *First*, contrary to the arguments of Gable and Burns, reducing the number of landing stations modeled for Alaska would be contrary to the real world needs of the state, and make the CAM therefore less accurate as a measure of the costs of voice and broadband in Alaska. As explained in ACS's initial comments, the undersea cable system necessary to serve Alaska fully requires eight landing stations, not the four currently modeled in the CAM. Gable and Burns suggest incorrectly that landing stations should be combined, so that the two redundant cables serving Alaska would land at the same point. The very purpose, however, of creating redundant cables is to increase service reliability by eliminating single points of failure. Landing both cables at the same station would contravene that purpose by creating the potential for a failure of both cables if a disaster were to befall the common landing station. Given that the cost of a landing station is a small fraction of the overall cost of the undersea cable itself, a design that landed both cables at the same point would truly be "penny wise and pound foolish."

Second, the suggestion that the CAM should model redundant capacity based on the cost of purchasing capacity on an alternative existing third party cable, rather than through

⁴ *Connect America Fund*, WC Docket No. 10-90, Comments of Professor David Gabel and Mr. Steven Burns (filed Sept. 12, 2013), at 1 ("Gabel and Burns Comments").

construction of a redundant cable,⁵ is unworkable for Alaska. In determining that the CAM should model the cost of constructing a cable system to Alaska, the Bureau has already determined that no such cable capacity is available to ACS and other Alaskan ILECs. With no economic access to any alternative cable to use as a primary source, it is clearly impossible for ACS to rely on such nonexistent facilities for redundant backup capacity either.

Third, contrary to the suggestion of Gabel and Burns, the CAM should not attempt to model the cost of salvaging and repurposing old decommissioned cables from the ocean floor.⁶ Not only is the availability of such cables speculative at best, Gabel and Burns offer no information on the purported cost of pursuing such an alternative, nor the reliability and performance of such a cable on the route to Alaska where so few alternative facilities exist.

B. ACS Agrees that the CAM Should Incorporate Adjustments to Reflect the Unique Costs of Delivering Broadband in Insular Areas

In the *Transformation Order*, the Commission directed the Bureau to “consider the unique circumstances of these areas when adopting a cost model, and . . . further direct[ed] the . . . Bureau to consider whether the model ultimately adopted adequately accounts for the costs faced by carriers serving these areas.”⁷ ACS has worked diligently throughout this proceeding to catalogue the ways in which the CAM falls short of reflecting the true costs of delivering broadband in Alaska, identifying six specific adjustments to the CAM that are

⁵ Gabel and Burns Comments at 2.

⁶ Gabel and Burns Comments at 2.

⁷ *Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd 17663 (2011) (“*Transformation Order*”), at ¶ 193.

necessary to correct the model's most egregious errors. As summarized in ACS's initial comments, these are as follows:

- The CAM should accurately reflect the costs of building an undersea cable system to connect Alaska to IAPs in the lower 48 states;
- The CAM should reflect a forward-looking plant mix for Alaska that includes a higher proportion of buried and underground cable, as compared to aerial, than the baseline inputs indicate;
- The CAM should reflect the high cost of Alaska's soil conditions (be it permafrost, swamps, or hard rock) by classifying all of Alaska as "hard rock" or by setting the cost of building in other soil types equal to that of building in "hard rock";
- The CAM capital inputs should reflect a general 10 percent increase in capital costs to reflect the high cost of obtaining materials and transporting them to Alaska;
- The CAM should classify ACS as a "small" rather than "medium" sized company; and⁸
- The CAM should use a lower support threshold for ACS's service areas because ACS is subject to competition from a federally subsidized wireline (cable) broadband provider that receives federal high-cost support across a large proportion of ACS's service areas.⁹

In addition, given the short construction season in Alaska, ACS has requested ten years, rather than five, during which to receive support and complete the required buildout.¹⁰

Hawaiian Telcom, both in its initial comments on the Public Notice, and in a separate *ex parte* letter,¹¹ has now identified some of the same types of adjustments to the CAM necessary to reflect the costs of overcoming the unique challenges it faces in delivering voice and broadband services in Hawaii, including (1) the CAM's failure to reflect the costs of reaching Internet

⁸ See generally ACS July 9 Letter and ACS July 30 Letter.

⁹ ACS August 24 Letter at 2.

¹⁰ ACS July 9 Letter at 16; ACS July 30 Letter at 24.

¹¹ *Connect America Fund*, WC Docket No. 10-90, Letter from Gregory J. Vogt, Counsel to Hawaiian Telcom, Inc. to Marlene H. Dortch, Secretary, FCC (filed Sept. 11, 2013).

Access Points and connecting to Internet backbones, either in Honolulu or within the lower 48 states;¹² (2) the CAM's underallocation of submarine cable costs to supported voice and broadband services;¹³ (3) the need for the CAM to use Hawaii-specific plant mix figures reflecting a higher proportion of underground facilities;¹⁴ (4) the need to use the "hard rock" soil type throughout Hawaii to reflect the high cost of deployment, whether due to the corrosive marine coastal environment, volcanic soil with high resistivity and soft water that impairs grounding, or the presence of hard-to-break volcanic rock;¹⁵ and (5) the need for an increase in CAPEX input costs to reflect the high cost of shipping goods to Hawaii and the above-average inventory Hawaiian Telcom is required to carry.¹⁶

To fulfill the Commission's directive to consider the unique circumstances that insular carriers face in delivering voice and broadband to their customers, ACS agrees that the Bureau should incorporate the changes into the CAM requested by ACS and Hawaiian Telcom. These changes reflect local conditions that the CAM currently does not fully incorporate, and that consequently drive the cost of delivering voice and broadband in these states far above the levels that the CAM currently predicts. By making these required adjustments the CAM should produce sufficient levels of CAF Phase II support for these states. Doing so not only will enable CAF Phase II to better achieve the Commission's broadband policy goals, but will also avert the

¹² Hawaiian Telcom Comments at 2-3.

¹³ Hawaiian Telcom Comments at 4-5.

¹⁴ Hawaiian Telcom Comments at 6-8.

¹⁵ Hawaiian Telcom Comments at 8-9.

¹⁶ Hawaiian Telcom Comments at 9-10.

threatened loss of voice service endangered by the current low levels of CAF Phase II support that the CAM produces.

C. The CAM Should Incorporate a Lower Assumed Take Rate for Alaska

Just as it is not reasonable for the CAM to ignore the presence of a market competitor for carriage of undersea cable traffic between Alaska and the lower 48 states,¹⁷ it is not reasonable for the CAM to ignore the presence of the same federally subsidized competitor in the market for residential voice and broadband services in Alaska. As ACS has previously described in the record, as a result of its unique competitive landscape, the 80 percent take rate for voice and broadband services assumed by the CAM for the rest of the nation cannot accurately model reality in Alaska. ACS faces a federally subsidized wireline (cable) voice and broadband competitor, GCI, throughout most of its service area.¹⁸ For its wireline CLEC services, GCI has received over \$105 million in federal universal service support from January 2003 to June 2013,¹⁹ or an average of over \$10 million per year, in federal high cost support.²⁰ GCI has used this support to compete vigorously with ACS in the market for wireline broadband services, and

¹⁷ ACS Comments at 12-17.

¹⁸ ACS August 24 Letter at 2.

¹⁹ USAC data for Study Area Codes 619001 and 989004, obtained from USAC High Cost Disbursement Data Search Tool (available at: <http://www.usac.org/hc/tools/disbursements/default.aspx>).

²⁰ Because it receives federal high cost support, the Bureau has correctly found that GCI does not meet the definition of an “unsubsidized competitor.” *Public Notice*, WC Docket No. 10-90, “Wireline Competition Bureau Announces Availability of Version 3.1.3 of the Connect America Fund Phase II Cost Model,” DA 13-1340 (rel. June 7, 2013). Indeed, in light of the federal high cost support that historically has flowed to both ACS and GCI, there is no available evidence that either provider could offer affordable broadband meeting CAF Phase II standards without support.

federal support will continue to flow to GCI for a substantial part of the CAF Phase II election period.²¹

Because GCI already serves a substantial number of residential broadband Internet access customers in ACS's service area, and because ACS expects GCI to continue to use its federally subsidized facilities to compete with ACS throughout the CAF Phase II election period, ACS submits that it is not reasonable for the CAM to project that ACS will serve 80 percent of the total customer locations in its operating area with voice and broadband services. In the Bureau's virtual workshop, ACS stated that it currently experiences a take rate below 50 percent in areas where it offers residential and small business broadband, and argued that, "the average take rate should not exceed 50%, which is significantly higher than what ACS has experienced to date."²²

ACS therefore requests that the Bureau adopt a more realistic take rate, substantially below 80 percent, for the CAM to use in modeling voice and broadband costs in Alaska. ACS believes that it is unique in the nation in terms of the degree of overlap of its service territory with a federally subsidized wireline competitor, and the amount of federal support that competitor has received (and continues to receive). As a result, a lower take rate than elsewhere is required for the CAM to accurately model ACS's costs and provide the sufficient level of CAF Phase II support for delivering voice and broadband services to its customers.

²¹ Because it receives federal high cost support, the Bureau has correctly found that GCI does not meet the definition of an "unsubsidized competitor." *Public Notice*, WC Docket No. 10-90, "Wireline Competition Bureau Announces Availability of Version 3.1.3 of the Connect America Fund Phase II Cost Model," DA 13-1340 (rel. June 7, 2013).

²² WCB Cost Model Virtual Workshop 2012, "Support Thresholds," Submission of Robin Tuttle, Counsel to ACS, responding to Question 2 (available at: <http://www.fcc.gov/blog/wcb-cost-model-virtual-workshop-2012-support-thresholds>).

Conclusion

For the foregoing reasons, ACS urges the Bureau (1) to modify the calculation of undersea cable costs in the CAM, including the facilities needed to serve southeast Alaska, the cost factors applicable to the cables, and the allocation of those costs among services, as discussed herein; (2) to adopt the plant mix figures proposed by ACS and Hawaiian Telcom; (3) to incorporate into the CAM the remaining changes ACS and Hawaiian Telcom have proposed; (4) to grant ACS a waiver to permit it 10 years, rather than five, in which to receive support and complete the required CAF Phase II buildout; and (5) lower the take rate to accurately reflect the portion of customer locations ACS might realistically serve and thereby provide ACS with a sufficient level of CAF Phase II support for delivering voice and broadband services to its customers

Respectfully submitted,



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